



Caltrans Late Payment Penalties Continue to Drop

Time is money—especially when it comes to penalties for late payments. The California Prompt Payment Act requires state departments to calculate and pay late payment penalties if they fail to pay properly submitted, undisputed invoices or grants. By measuring the interest penalties that Caltrans issues each fiscal year, the department is able to determine if it is effectively meeting its financial obligations and being good stewards of taxpayer dollars.

When payments are made on time, Caltrans can use its budgeted funds for goods and services that help accomplish the department's goals. Paying interest penalties reduces Caltrans' available resources that can be used for tangible items.

Caltrans' Goal is Zero Late Payment Penalties

Caltrans has a goal to pay \$0 in interest penalties and tracks its total expenditures for late payment penalties. The amount is reported each fiscal year to the California Department of General Services. The on-time passage of a state budget for each of the past three fiscal years has helped Caltrans pay their obligations on time and minimize interest penalties. In the past three fiscal years, the penalties Caltrans paid represent a tiny proportion of its overall payments—less than one-hundredth of a percent.

Prompt Payment Act Interest Penalties Paid

Fiscal Year	Total Payments in Billions	Total Invoices Paid	Number of Late Invoices	Penalty Amount Paid
2004-05	\$4.50	809,790	834	\$257,897
2005-06	\$5.30	861,843	1,110	\$238,150
2006-07	\$6.40	866,605	1,696	\$398,261
2007-08	\$6.50	875,433	2,466	\$529,922
2008-09	\$7.10	860,296	2,678	\$468,083
2009-10	\$6.20	823,728	1,645	\$477,869
2010-11*	\$7.10	742,792	2,456	\$1,050,209
2011-12	\$7.80	916,894	529	\$122,072
2012-13	\$7.80	928,632	242	\$89,197
2013-14	\$8.40	929,653	240	\$46,165

* Fiscal year 2010-11 reflects a spike in interest penalties due to two factors:

(1) California's budget was enacted on October 5, 2010, rather than June 30, 2010, and (2) Caltrans transitioned to a new financial management system.

Annual Rebates

Year	Cal-Card Rebates
2004	\$34,256.56
2005	\$54,643.94
2006	\$53,689.52
2007	\$258,946.22
2008	\$311,268.96
2009	\$247,610.77
2010	\$167,503.59
2011	\$289,666.40
2012	\$390,709.47
2013	\$324,733.11
2014	\$302,178.53

*Every year, Caltrans
pays an average of
867,000 invoices
worth \$7.5 billion
to vendors and
contractors, and
pays more than
99.99 percent of its
invoices on time.*

Consistent on-time state budgets have contributed to reductions in Caltrans' late penalties. This pattern has enabled Caltrans to focus on monitoring and communication that has resulted in improved timely payments. In addition, Caltrans' reductions in late interest penalties has also benefited from lower interest rates upon which the penalty payments are based.

There are rewards for Caltrans making prompt payments. Because of its success in making timely payments, Caltrans has received bank rebates. Over the last three years, these rebates have totaled more than \$1 million.

Communication is Vital to Success

Managing the resources of a department the size of Caltrans requires sound business processes, effective financial tools, and trained staff who understand the importance of paying vendors on time. All Caltrans employees who request, receive, and approve invoices for services and goods play an active role to meeting the department's stewardship goals.

Caltrans' Division of Accounting and Division of Procurement and Contracts work together to communicate and train staff on the importance of the Prompt Payment Act. The Division of Accounting offers prompt payment training to ensure staff know the timelines to review and issue a payment and the interest penalty if vendors are not paid on time. Caltrans' Division of Procurement and Contracts communicates the importance of this information in its contract manager training. The Division of Accounting measures the amount of interest penalties paid and communicates this information statewide to Caltrans management, resource managers, and budget representatives.

Source: Division of Accounting